

## ANNEX 2 to the Call for Expression of Interest No JER-008/2010/1

### Funded Risk Sharing Financial Instrument: Description and Selection Criteria

#### Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest.

##### 1 Rationale

The purpose of the Financial Instrument is twofold. It:

- 1) provides funding to the Financial Intermediary to support new SME lending; and
- 2) shares the risk of new SME loans.

SME loan portfolios to be established on the basis of the Financial Instrument are geared towards Eligible SMEs which are sound, well-performing and within the normal credit risk spectrum of SMEs in Cyprus (i.e. bankable SME risk).

##### 2 Structure

JEREMIE Trust funds will be provided by EIF (acting in its own name but on behalf of the Republic of Cyprus) to selected Financial Intermediaries pursuant to individual Operational Agreements. Subject to the risk-sharing element set out below, the Financial Intermediary undertakes to repay to EIF the disbursed amount and any interest accrued thereon.

The Financial Intermediary further undertakes to originate a new SME loan portfolio partly funded from the initially disbursed funds<sup>1</sup>. The origination, due diligence, documentation and execution of the SME loans will be performed by the Financial Intermediary in accordance with a pre-set origination model agreed with EIF but otherwise applying all normal standard procedures of the Financial Intermediary.

In this context, the Financial Intermediary shall have the sole direct client credit relationship with each SME.

Each Financial Intermediary will be responsible (in compliance with its internal operating guidelines) for the handling of payments, the ongoing monitoring, the reporting to EIF as well as the management and realisation of collateral backing the newly originated SME loan portfolio.

EIF's repayment claim under the Operational Agreement will be decreased, contingently on losses occurring under the originated SME portfolio (under agreed conditions and at a predetermined ratio), thereby providing a risk-sharing element to the Financial Intermediary.

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<sup>1</sup> Repaid amounts will be returned to the JT.

### 3 Indicative Summary of Transaction Terms

Structure	Funded risk sharing financial instrument.
Governing law and language	The terms of the Funded Risk Sharing Financial Instrument shall be in the English language and shall be governed by the laws of England.
Form	Operational Agreement for co-funding of a loan portfolio and risk sharing thereof on a loan by loan basis.
Limitation of liability	Liability of EIF vis-à-vis each Financial Intermediary will be limited to the amounts disbursed to such Financial Intermediary under the relevant Operational Agreement.
Co-financing rate	In addition to the funding provided through the JT, the Financial Intermediary shall provide co-financing of 50% on a loan by loan basis.
Risk sharing rate	EIF and the Financial Intermediary will share the risk on each loan financed by the facility on a <i>pari passu</i> basis. Accordingly, EIF will cover 50% of the losses on a loan by loan basis.
Eligible SMEs	<p>Micro (including individual entrepreneurs/self employed persons) and small enterprises as defined in the Commission Recommendation 2003/361/EC, excluding “firms in difficulty” within the meaning of Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2), as amended or substituted by future Community guidelines.</p> <p>A number of industries will be supported, except:</p> <ol style="list-style-type: none"> <li>a. Arms production and trading;</li> <li>b. Gambling;</li> <li>c. Tobacco;</li> <li>d. Human cloning;</li> <li>e. Genetically Modified Organisms;</li> <li>f. Undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000;</li> <li>g. Undertakings active in the primary production of agricultural products, as listed in Annex I to the Treaty on the functioning of the European Community;</li> <li>h. Additional excluded sectors presented in Article 1 (c-g) of the De Minimis Regulation.</li> </ol>

	<p>The seat of the eligible micro and small enterprises is in Cyprus<sup>2</sup>.</p> <p>The JEREMIE funds should be utilised within Cyprus.</p>
Operational Programme contributing sectors/projects	<ol style="list-style-type: none"> <li>a. Renewable energy;</li> <li>b. Research and development;</li> <li>c. Information and Communications Technology;</li> <li>d. Technology upgrade for manufacturing services;</li> <li>e. Solid waste (i.e. recycling systems);</li> <li>f. Waste water (water saving systems, consultancy related to the creation of biological stations etc);</li> <li>g. Culture and social services.</li> </ol>
Eligible forms of SME financing	<ol style="list-style-type: none"> <li>1. Investment loans (tangible and intangible assets)</li> <li>2. Working capital financing, linked to development or expansion activities.</li> </ol> <p>The underlying loans need to have a fixed repayment schedule, i.e. credit lines are not eligible.</p>
Currency of SME loans	Loans to be denominated in EUR only.
SME Loan Maturity	Minimum 24 months and maximum 120 months including a grace period (for capital repayment) of up to 1/3 of the loan duration, with maximum 2 years. Only amortising loans are eligible.
SME Loan Amount	<p>The maximum loan amount to an Eligible SME shall not exceed EUR 100 000.</p> <p>Eligible SMEs could potentially apply more than once for loans allocated in the context of this Financial Instrument given that the maximum total loan amount of EUR 100 000 is respected.</p>
Availability period	Up to 24 months from date of signature of the Operational Agreement.
Origination Model	<p>Newly originated SME loans to be covered by the Financial Instrument are automatically included in the portfolio subject to pre-set loan inclusion criteria defined on a loan-by-loan basis.</p> <p>Loans provided under this Financial Instrument should be fully disbursed to Eligible SMEs within 24 months from the date of signature of the Operational Agreement.</p>

<sup>2</sup> It is noted that , according to the Protocol 10 of the Accession Treaty of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union, the application of Community Aquis shall be suspended in those areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control. In addition, according to the Protocol 3 of the above mentioned Treaty, the Sovereign Base Areas of the United Kingdom of Great Britain and Northern Ireland, in Cyprus, are not included in the eligible areas.

Risk sharing arrangements	Cover of losses on a loan by loan and <i>pari passu</i> basis, by EIF acting through the JT and the Financial Intermediary. EIF's repayment claim under the Operational Agreement will be reduced accordingly.
Loss Cover	EIF's liability will be limited to its share of the residual losses (on the principal amount only) calculated at the applicable risk sharing rate.
Default definition	Applicable default definition of the Financial Intermediary in the context of Basel II.
Disbursement under the Operational Agreement	Disbursement in several tranches, either ex ante or ex post, based on actual utilisation. Decision on whether funding will be provided to the Financial Intermediary ex ante or ex post will be taken by the EIF, in collaboration with the RoC, on the basis of EIF's assessment regarding the credit worthiness of the selected Financial Intermediary (as concluded during the evaluation/due diligence process).
Financial covenants and counterparty risk mitigants	On the basis of EIF's assessment of the counterparty risk of the selected Financial Intermediary (as concluded during the evaluation/due diligence process), EIF will request appropriate financial covenants and undertakings by the selected Financial Intermediary under the Operational Agreement. EIF reserves the right to determine the collateral or risk mitigants to be provided by the selected Financial Intermediary under the Operational Agreement, including, subject to local law requirements, rating triggers, pledges or negative pledges.
Repayment under the Operational Agreement	Repayments would occur regularly (e.g. quarterly) mirroring (i) principal repayments (on a pro rata basis), (ii) interest payments (on a pro rata basis on the basis of the pricing applied), as well as, (iii) any recovered amount (according to the risk sharing rate), of the underlying SME loans. EIF's repayment claim will be reduced/written-off in proportion to the losses occurring under the risk-shared portfolio. Re-utilisation of the JEREMIE funds is not possible.
Pricing and collateral requirements	Loans provided under this Financial Instrument will be offered to the Eligible SMEs on the basis of the pricing and collateral policy submitted by the selected Financial Intermediary under the Expression of Interest (c.f. quality assessment criteria). An interest rate "discount" is expected to be offered on the 50% portion of each loan provided under this Financial Instrument and supported by the JT. The level of discount offered will be defined by the EIF following a detailed assessment of the selected Financial Intermediary's pricing

	policy and will be appropriately communicated to the respective Eligible SMEs through their loan agreement with the selected Financial Intermediary.
Other terms and conditions (if applicable)	Other terms and conditions for the new SME loans originated under the Financial Instrument should be applied by the Financial Intermediary in accordance with the policies submitted under the Expression of Interest.
Management Fees	Financial Intermediaries might receive a Management Fee in accordance with applicable rules <sup>3</sup> , but not exceeding 2% on an annual basis, for their origination and servicing of the portfolio. The Management Fee shall be calculated as a percentage of the pro rata share (i.e. on the co-funding contributed by EIF acting through the JT) of the average outstanding amount (i.e. disbursed and not repaid) of the SME loan portfolio.
Additional Interest due - In addition to the interest described under "Repayment under the Operational Agreement"	The Financial Intermediary shall pay interest at a commercial rate ,as agreed with EIF under the Operational Agreement, on the following cases: <ol style="list-style-type: none"> <li>1. Funds disbursed to the Financial Intermediary, not yet drawn down to SMEs (in the case of funding provided ex ante to the Financial Intermediary);</li> <li>2. Repayments collected by the Financial Intermediary from SMEs but not yet transferred to the EIF.</li> </ol>
Reporting	Financial Intermediaries shall provide EIF with quarterly information in a standardised form and scope, defined by the EIF. An <a href="#">indicative reporting template</a> is provided along this Call for information. Regular controls and verifications will be performed by the EIF in order to ensure compliance with the specifications and provisions of this Financial Instrument.
State Aid requirements	Financial Intermediaries shall be responsible for ensuring that loans originated respect the provisions of the <i>De Minimis</i> Regulation, in accordance to the State aid assessment performed by the responsible State aid Commissioner in Cyprus. In this context, they shall be responsible for the calculation of the Gross Grant Equivalent ("GGE") and also for following the appropriate monitoring

<sup>3</sup> According to the Commission Regulation (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006) as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).

	<p>procedure as this is stipulated in the De Minimis Regulation, article 3.</p> <p>For the calculation of the GGE, the Financial Intermediaries will be required to match each Eligible SME Loan with the reference table presented in the Commission's Communication 2008/C 14/02, and as it is amended from time to time.</p> <p>The awarding of De minimis aid shall be properly communicated to the eligible SMEs in accordance to the recommendations of the State aid Commissioner in Cyprus.</p>
Monitoring and Audit	<p>Financial Intermediaries and the relevant SMEs (final beneficiaries) shall agree to allow and to provide access to their premises and to documents related to the relevant Financial Instrument for the representatives of the Republic of Cyprus, the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Financial Intermediaries shall also include appropriate provisions in each agreement with the SMEs.</p>
Publicity	<p>Financial Intermediaries, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the SMEs in Cyprus.</p> <p>In particular, the selected Financial Intermediary will be contractually required to:</p> <ul style="list-style-type: none"> <li>• Product labelling: The name of the product should clearly point to JEREMIE (e.g. "JEREMIE Co-financing Instrument");</li> <li>• Promote JEREMIE and the Financial Instrument through its website;</li> <li>• Insert a promotional billboard inside all branches promoting this Financial Instrument;</li> <li>• Make at least two promotional publications in the three biggest newspapers and in the two biggest financial newspapers;</li> <li>• Make available promotional leaflets in all branches promoting this Financial Instrument;</li> <li>• All documents concerning this Financial Instrument, including amongst others, loan applications, SME loan agreements, promotional material to the SMEs, etc, will contain a statement mentioning that part of the financing comes from European Regional Development Fund (ERDF) and also national resources - Appropriate text and logos is envisaged to be provided to the selected Financial Intermediary</li> </ul>

	<p>during the phase of contractual negotiations;</p> <ul style="list-style-type: none"> <li>• Financial benefit: The financial benefit made possible due to JEREMIE's participation should be identified at the time of signature of the loan contract and formally communicated to the SME. The financial benefit offered should also be used as a marketing tool from the Financial Intermediary.</li> </ul>
<p>Additional Structural Fund requirements</p>	<p>This Financial Instrument is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, hereabove (e.g. Monitoring and Audit, Publicity, Reporting etc). It should be noted however that more detailed information on actions necessary to ensure compliance of operations linked to this Financial Instrument with all structural funds requirements (e.g. retention of documents, environmental protection, equality and non discrimination) will be provided to and discussed with the selected Financial Intermediary during the contractual negotiations process.</p> <p>This Financial Instrument is further subject to additional national structural funds requirements. National structural funds requirements may apply, inter alia, to any amendment of Operational Agreements which may in particular be necessary if the purpose, objective, eligibility conditions, timeframe of, or the budget for, the Financial Instrument changes.</p>

## Part II: Selection Criteria for the Funded Risk Sharing Financial Instrument

System of  
appraisal  
Yes/ No

### 1. ELIGIBILITY CRITERIA

- 1.1. Credit institution authorised to carry out business in Cyprus under the applicable regulatory framework.  
To be noted that joint ventures and also consortia can express their interest as long as they indicate/nominate one coordinating entity as a contractual counterpart for the EIF for the entire term of the Operational Agreement (in case of selection). Such Applicants are required to submit one, joint Expression of Interest.
- 1.2. Ability to deliver nationwide geographical coverage in Cyprus.
- 1.3. The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided (in the form requested if specified).
- 1.4. The Expression of Interest is duly signed.
- 1.5. The Expression of Interest is completed and submitted in English.
- 1.6. The Expression of Interest is submitted both by registered mail and e-mail.
- 1.7. The Expression of Interest is submitted within the Deadline.
- 1.8. The Expression of Interest specifies at least the items listed in Article 43.3 of Commission Regulation (EC) No 1828/2006<sup>4</sup> as described in Appendix 2 to Annex 1 hereof.
- 1.9. The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions set out in the relevant parts of the Financial Instrument description (Part I of this Annex).

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<sup>4</sup> Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006), as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).



## 2. QUALITY ASSESMENT CRITERIA

2.1. In case of externally rated Financial Intermediaries, actual external rating by at least one of the following rating agencies: (i) Moody's Investor Service Limited, (ii) Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or (iii) Fitch Ratings Ltd, taking into account any change of the rating within the last two years.

In case of other Financial Intermediaries, the quality of key financial ratios (a preliminary assessment of the financial standing and credit worthiness of the Financial Intermediaries will be performed on the basis of key financial ratios calculated from the audited financial statements submitted).

2.2. General quality of the project proposal and implementation strategy submitted under the Expression of Interest.

2.3. Pricing policy and collateral requirements of the Financial Intermediary, to be charged under the Financial Instrument, as submitted under the Expression of Interest.

- o of which offer relating to the proposed collateral and risk margin (maximum risk margins will be compared) – table presented in Appendix 2 sections 1a and 1b;
- o of which offer relating to the proposed fees – table presented in Appendix 2 section 2.

2.4. Level of Management Fees requested by the Financial Intermediary.

2.5. Contribution of the Expression of Interest to the objectives of the Operational Program "Sustainable Development and Competitiveness"

2.6. Positive impact of the proposal on the environment and on creating / enhancing environmental sustainability.

2.7. Contribution of the proposal to promote gender equality and non discrimination.

2.8. Detailed assessment of the Financial Intermediary's financial standing with regard to capital adequacy, provisions, liquidity, other financial ratios, its capacity to service outstanding loan portfolio, the quality of its existing SME portfolio and the rate of its non performing loans, etc. Also assessment of the Financial Intermediary's organisational structure and corporate governance.

2.9. Detailed assessment of the Financial Intermediary's credit worthiness and risk management with regard to credit policy (internal procedures and guidelines), origination, risk assessment (rating/scoring), loan approval procedures, collateral requirement, recovery procedures etc.

Assessment of the administrative capacity of the Financial Intermediary: Quality of IT systems, reporting mechanisms, monitoring procedures and controls and assessment of overall ability of the Financial Intermediary's to comply with the Financial Instrument's reporting and monitoring requirements.

### Description of the procedure for the evaluation of the Quality Assessment Criteria

Evaluation of the Quality Assessment Criteria shall be conducted in two stages. In stage one, criteria 2.1-2.7 shall be evaluated and Applicants shall be ranked according to their evaluation results. On this basis, a pre-selection list of Applicants will be formed and detailed evaluation/full due diligence shall be performed on those Applicants that have been included in this pre-selection list. As a result of the detailed evaluation/full due diligence, criteria 2.8-2.9 shall be evaluated. As a result, contractual negotiations of Operational Agreements shall be initiated with those Applicants with the highest overall evaluation results (stages 1 and 2), assuming that those have qualified from the minimum quality requirements set by the EIF. Applicants are invited to note that the Quality Assessment Criteria 2.2, 2.3, 2.8 and 2.9 are considered the most important in the evaluation/selection procedure.